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# *THE IMPACT OF ETHICAL TAX BEHAVIOUR ON TAX COMPLIANCE OF TAX AUTHORITY AND CORPORATE TAXPAYERS OF LISTED MANUFACTURING COMPANIES IN NIGERIA*

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## ABSTRACT

The development of tax payment decision-making models (Sociological, Economical and Psychological) has focused on economic and behavioural factors affecting tax compliance. The issue of tax evasion, which remains an ethical problem for companies, has been a general concern in developed and developing countries alike. The main problem of this study is low tax collection on the part of relevant tax authority, couple with non-tax compliance behaviour of the corporate taxpayers in Nigeria. This study examined the effect of tax fairness of tax authority on tax compliance behaviour of taxpayers in the Nigerian manufacturing sector. This study adopted a survey research method, and 400 copies of the questionnaire were administered to the selected listed manufacturing companies in Nigeria and relevant tax authority staff (FIRS). Theory of Planned Behaviour underpinned this study and Correlation analysis, Analysis of Variance (ANOVA) and Multiple Regression analysis were also employed. The

 

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study found that there is a significant level of tax compliance among the listed manufacturing company in Nigeria. The study also shows that the tax authority's perception of fairness of -2.769 (0.006) has a significant impact on corporate taxpayer's compliance behaviour. Based on the above findings, the study recommends that taxpayers need to file accurate tax returns, transparency in total income declaration and minimize the risk of breaching of tax laws within the entity, while tax authority should apply tax laws consistently without bias (fairness), also adhere strictly to moral and ethical code of conduct.

**Keywords:** Taxes, Ethics, Tax Authority, Manufacturing, Nigeria

**JEL Classification: H21, H30**

## 1.0 Introduction

The Nigerian economy is made up of many sectors which accounted for 13.8% of its Nominal Gross Domestic Products (GDP) in December 2020 compared with a percentage of 9.0% in the previous year, of which the manufacturing sector is one of them (Nigerian Stock Exchange, 2020). Nigerian Stock Exchange reported N38.351 trillion as market capitalization in Mach 2021. This records a decrease from the previous market capitalization of N49.377 trillion in February 2021. The manufacturing industry applies to those sectors and operations that are active in the transformation, production and processing of items that create value addition to the commodity (Falade & Olagbaju, 2015).

Akintoye and Tashie (2013) noted that tax proceeds are vital mechanisms for economic expansion in many developing countries, such as Nigeria, as revenue-generated taxes help the economy to provide facilities and social welfare support. According to Falade and Olagbaju (2015), manufacturing sector, this function as a trade-substituting sector, offering a ready-made demand for indirect products and making a substantial contribution to the extraction of government income taxes. It has not been clear whether the manufacturing companies are ethically compliant with their tax obligation in the country.

Gabriel (2014), Companies Income Tax is a significant element of the tax structures of technologically advanced nations because it is one of the foremost techniques of generating revenue through taxing of businesses. Taxation of companies has a strong position in the economy due to the tax base of company income tax, and there are still tougher competitions in generating adequate revenue to meet the required economic advancement, (Baranova & Janickova, 2012). The ethical tax behaviour of a corporate organisation can be viewed from different perspectives and how taxes have influenced them towards paying tax willingly or

 

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not. According to Alm, Bernasconi, Laury, Lee and Wallace (2017), ethics are the doctrines, value and codes of conduct that guide the comportment of a profession. Ethical tax behaviour can be described as an individual perception and approach towards tax compliance, which explains the state and ways in which taxpayers oblige to their tax duties.

The main problem of this study is non-tax compliance behaviour, which is an issue throughout the world and may have unfriendly outcomes on the economy (Lipatov, 2012). Non- tax compliance behaviour, however, is an issue that affects tax growth and development as one of the primary revenue sources of government in the country. Oluyombo and Olayinka (2018) identified different factors that contributed to non-compliance behaviour as; Misappropriation of tax collected, Corruption, Weak tax administration, Political instability, heavy tax burden and Multiplicity of taxes. Nigeria's tax compliance rate is significantly low, at 10 percent compared to other countries based on the Federal Inland Revenue Service figures (FIRS, 2018). However, in the United States of America, internal revenue service estimated that 100 billion dollars were lost yearly to tax non-compliance (Bobek & Hatfield, 2003).

## 2.0 Literature Review

The aim of this study is to examine the impact of ethical tax behaviour on tax compliance of tax authority and corporate taxpayers of listed manufacturing companies in Nigeria.

Based on the aim of this study, the relevant null hypotheses were formulated thus:

> Ho1: There is no significant relationship between tax fairness and tax compliance among tax authority.
>
> Ho2: There is no significant relationship between tax responsibility and tax compliance behaviour of corporate taxpayers of listed manufacturing companies in Nigeria.

## Ethical Tax Behaviour and Tax Compliance

Ethical behaviour can be described as morally right or wrong conduct or principles that control or influence human character. Jimoh, Idogho and Iyoha (2012), the slow growth and progress of Nigeria is due to the lack of ethical conduct and accountability on the part of people managing the resources of the nation. Raabe, Whittenburg and Sanders (2006), in their study, stated that there are virtually more to ethical behaviour, value system and moral conduct rather than imbibing and following the codes of conduct of a particular profession. The ethical conduct of




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any profession is a result of the concrete interaction between the ethical value, personal morality, social responsibility, business ethics, and other general ethical standards which influence the value system of an organisation.

Tax compliance is a significant problem for many tax authorities across the globe (Deyganto, 2018; Olaoye & Ekundayo, 2019). Tax compliance is the process and procedure of persuading taxpayers to comply with the relevant tax laws, although they are not always accurate in filing appropriate tax returns. Momoh (2018) stressed that there are series of challenges facing the actualisation of tax compliance, the aspect of non-compliance behaviour on the part of taxpayers as a result of the failure of the revenue authorities to have a comprehensive list of companies that are not paying tax but they are active in the business.

Duy and Tran (2020) examined the influence of international standards on SME's tax compliance in Vietnam. The study revealed the application of international standards certification boosts tax compliance of private SMEs in Vietnam. In adhering to international standards increases the likelihood that formal accounting records will be kept, reducing the payment of bribes to tax officials. Le, Malesky and Pham (2020) found a household business that operates in a more corrupt province is more likely to possess a tax identification card (ID), even though it does not necessarily pay more taxes. They further stressed, among firms that possess tax identification cards, an increase in corruption is associated with a decrease in the tax compliance rate.

## Ethical Tax Behaviour of Tax Authority and Corporate Taxpayers

Ethical tax behaviour can be viewed from two angles; in both the taxpayers and tax authority. Therefore, ethical behaviour is acting or conforming to accepted standards of coduct, (Gelin & Billard-Moalic, 2019). Companies must pay their fair share of taxes in order to contribute to the society growth and development. In other word, tax authorities should generate adequate tax revenues, to promote welfare of the citizens, deliver public services and build physical and social infrastructure for long-term growth. The relevant tax authorites have the power to assess taxes; Collection of revenues; Property seizures; Adjustments and fines on tax declarations; Payment (and delays) on tax returns; Closure of business activities, etc. Abuse of these powers can create severe damage to the civil rights of the taxpayer (Kommer, 2009). Ethical tax behaviour of tax authorities are guided by a code of conduct, to avoid any professional or business activity that may create a conflict between personal interestsand the duties of the tax authorities. Kommer (2009) established code of conduct is mainly based on the following principles: Fairness and equity, Transparency, Integrity and Accountability. The taxpayer's perception has been viewed from different angles. Firstly, taxpayer's attitude of being greedy

 

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that want to maximise their income and show no civic responsibility or duty to the government; secondly, absence of punitive measures and control which supposed to serve as a good check on taxpayers. The taxpayers have it in mind that they could avoid paying tax without being caught by the tax authorities in Nigeria. The tax structure and wasteful government spending had demoralised them in paying taxes, which also motivated them to evade tax payment.

The major tax obligations arising from tax laws in Nigeria include: Tax registration; Filing of tax returns; Payment of taxes due including minimum tax; Tax collection agent; Withholding tax obligation; Duty to disclose; and Duty to keep books of account. Majorly, a lot of non-compliance behaviour was as a result taxpayer's perception of not being treated fairly and also feel that wasteful spending of tax revenue by the government, (Alm & Torgler, 2012).

Oladipo, Iyoha, Fakile, Asaleye and Eluyela (2019), the vital aspect of tax compliance is that it will improve government revenue generation positively when individual taxpayer sees tax system and policy as fair, trustworthy, just and the judicious spending of the tax revenue. In a situation where taxpayers trust the authorities of their country and recognise tax payment as civic right and responsibilities, then knowledge, fairness, moral appeals, attitude and taxpayer's reputation may lead to voluntary tax compliance, which will increase revenue capacity of the government and reduce tax costs.

Icek Ajzen proposed this theory (Theory of Planned Behaviour) in 1985 through his article "From intentions to actions." The theory suggests that people are much more likely intend to enact particular behaviour when they feel they can enact them successfully. This theory is based on behavioural intention, which is anchored on three main factors; the behavioural belief- attitude towards the behaviour, the subjective norm- perceived expectations and perceived behavioural control- control beliefs (Ajzen, 1993). The goal of the theory of planned behaviour is to provide a comprehensive framework for understanding the determinants of such behaviours. The attitude aspect of the theory considers the individual evaluation of favourableness and unfavourableness of an attitude object. Based on the behavioural aspect of this theory, it underpinned this study.

. Abdul and wang'ombe (2018) in their study on the influence of tax compliance costs behaviour among medium and large corporate taxpayers in Kenya. The result reveals that tax compliance behaviour among corporate taxpayers in Kenya significantly declines with an increase in tax compliance costs. The study emphasised that tax authority should try to reduce financial pressure on companies through moderate enforcement, which will enhance tax compliance. In the same vein, Sigle, Goslinga, Spekle, Hel and Veldhuizen (2018) in their study on corporate tax compliance: is a change towards trust-based tax strategies justified and found a positive relationship between trust and voluntary compliance. It implies that corporate taxpayers significantly complied with tax payment when there is a high level of trust in tax

 

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authority. Jahnke and Weisser (2019) in their study on the effect of corruption on tax morale in sub-Saharan Africa and found that bribery and corruption of public officials reduce tax morale and also result into loss of confidence in tax authorities.

## 3.0 Methodology

This study adopted survey research method (questionnaire) and the entire listed manufacturing companies that are in both the industrial and consumer goods segment of the economy, other than companies that carried out petroleum operations and the relevant tax authorities were the population of this study.

The totality of the questionnaire used for the analysis of this study was 278 out of 400 copies of the questionnaire distributed to the respondents (Tax manager, Accountants, Auditors, Corporate Responsibility staff and Relevant Tax Authorities).

## 4.0 Discussion of Findings

### Hypothesis One

There is no significant relationship between tax fairness and tax compliance among tax authority.

Findings from this study do not agree with the null hypothesis, the interaction is statistically significant, as demonstrated by the t- stats and p-value of (-2.769 and 0.006) respectively. The result depicts that tax fairness has a negative and significant of about (-0.159) influence on ethical tax behaviour of tax authority which have effect on compliance behaviour of taxpayers. This findings is in line with Sigle, Goslinga, Spekle, Hel and Veldhuizen (2018) in their study on corporate tax compliance: is a change towards trust-based tax strategies justified and found a positive relationship between trust and voluntary compliance. It implies that corporate taxpayers significantly complied with tax payment when there is a high level of trust in tax authority.

### Hypothesis Two

There is no significant relationship between tax responsibility and tax compliance behaviour of corporate taxpayers of listed manufacturing companies in Nigeria.

The result of this study align with the null hypothesis. This result is obvious by the t-stats and p-value (-1.227 and 0.221) concurrently. The outcome reveals that tax responsibility has an adverse association of about (-0.076) on tax compliance behaviour of the corporate

 

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taxpayers of listed manufacturing companies in Nigeria. Implying that an additional unit of tax responsibility would require reduction in tax compliance by about (0.076) However, the degree of influence is statistically insignificant. This finding come to an agreement with the work of Bobek and Hatfield (2003) the function of an individual underlying belief about the outcomes they expect to achieve in behaving in a particular way and the value they place on these outcomes.

## 5.0 Conclusion and Recommendations

This study concluded in relation to of the impact of ethical tax behaviour on tax compliance of tax authority and corporate taxpayers of listed manufacturing companies in Nigeria. The theory of planned behaviour model dealt with ethical behaviour and non-compliance behaviour with two compliance principles, namely fairness and responsibility. (Gobena & Van Dijke, 2017). This fair perceived decision-making on tax collection will promote efficient tax revenue collection to yield the maximum benefit to the entire public. The study showed that taxpayers are aware of their tax obligatory. Therefore, the government should concentrate on encouraging voluntary tax compliance through a reward system, which will serve as tax incentives.

The major contribution of this study in the area of ethical tax behaviour of taxpayers; in the area of tax responsibility of tax payers, Timely filing of tax returns, Full disclosures of the total revenue and Faithful presentation of financial statement while tax authority need to carry out their activity with fairness, integrity, transparency and accountability. Increased transparency will enhance compliance behaviour and build mutual trust between companies and tax authorities.

The study recommends that tax authority should educate taxpayers on their rights and responsibilities to ensure the highest possible levels of voluntary compliance to the tax laws and ensure impartiality and equal treatment of any tax laws.




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